

Massmart announces staff empowerment transaction

18-million Massmart shares will be placed into an employee empowerment trust called Thuthukani.



Greatstock/Hannelle Coetzee

In one of the most important deals in its history, the board and executive committee of Massmart has announced, pending shareholder approval, its intention to enter into an empowerment transaction with permanent staff based in South Africa. The transaction, if approved, will involve placing 18-million Massmart shares, representing R900 000 000 of Massmart's shareholding, into the Thuthukani employee empowerment trust.

Massmart is committed to BEE

Although there are no laws or charters defining black economic empowerment (BEE) for retailers as yet, the Massmart board approved a policy in early 2004 to

focus on every aspect of BEE. One of Massmart's key objectives has been to share the ownership of the company with previously disadvantaged people. Our permanent employees, 85% of whom are previously disadvantaged, are the people the board feels most deserving of recognition for the part they have played in Massmart's success. It allows Massmart to recognise the valuable contribution the group's permanent employees have made and it provides the opportunity to demonstrate our commitment to transformation. The board is also confident that it is entirely appropriate at this time in the history of not only the company, but also the country. In addition, the advantages spread far beyond the company.

This transaction not only aligns Massmart with staff, whose efforts have been the origin of the value created over the past 18 years, but also with our customers, whose continued patronage is highly valued. It is also expected to have a positive impact on broader South African society, whose respect we strive to earn.

Share allocation

The first step in the Thuthukani Empowerment Trust transaction is allocating what are called 'A' preference shares to all South African based permanent employees. The number of shares allocated in the Thuthukani Empowerment Trust to each employee will be based on the length of service

the employee has with the Massmart group.

It is estimated that a minimum allocation of 400 shares each will be made to all employee beneficiaries, irrespective of their length of service, and that more shares will be allocated to employees based on length of service with the Massmart group. It is also estimated that the total number of shares allocated to any individual will be subject to a likely maximum of 2 400.

The allocation of shares in Thuthukani will be once off and any employees joining the Massmart group after October 1 2006 will not be allocated any shares in Thuthukani.

How do employees benefit?

Qualifying employees will be South African based permanent employees as at October 1 2006. These employees will be allocated shares in the Thuthukani Empowerment Trust and will earn a portion of the Massmart dividend declared by the board. Employees will also keep the growth in value of their share allocation as their profit.



Greatstock/IBODEN

Benefit 1: Growth

Massmart shares are placed in the trust at a price of R49,98 per share.

The difference between that price and the share price at the time employees are able to sell their share allocation is the growth, and this is what employees keep as their profit. Massmart shares are expected to be worth more than the R49,98 when Thuthukani was established. For example, by the first year of vesting (2010), the shares may be worth an estimated R95,00.* This may grow to R105,00* in the second and R115,00* in the third and final year of vesting.

Employees will also have the option of using their profit from the growth in the value of their share allocation to buy ordinary Massmart shares. Shares will vest to Thuthukani beneficiaries on the following basis:

- 33,33% at the end of Thuthukani year 4 (1 October 2010, first vesting date);
- 33,33% at the end of Thuthukani year 5 (second vesting date); and
- 33,33% at the end of Thuthukani year 6 (third vesting date).

Employees must be in the employ of the Massmart group on the respective vesting dates in order to be eligible to receive their share allocation and any employee who leaves the employ of the Massmart group for any reason other than death, disability, sale of business or retirement will forfeit their rights to their share allocation.

Benefit 2: Dividends

Each employee's share allocation will earn him or her a portion of the Massmart dividend. This usually happens twice a year, in March and September. Employees can expect their dividends to be paid with their April and October salaries.

Thuthukani beneficiaries will receive:

- 25% of the ordinary share dividend in year 1 (being the financial year to June 2007);
- 50% of the ordinary share dividend in year 2;
- 75% of the ordinary share dividend in year 3;
- 100% of the ordinary share dividend in year 4 and thereafter.

Trustees and voting

More than 50% of the trustees of the Thuthukani Empowerment Trust will be previously disadvantaged and the chairperson will be independent of Massmart. The majority of the trustees will be elected by the employee beneficiaries and will be able to vote on behalf of the trust.

With this proposed empowerment transaction, employees will soon be able to share in Massmart's growth, and that's reason for celebration! ■

* Please note: notwithstanding the provisions contained in Personal Best, in the event of any discrepancies this publication and the rules of the Thuthukani Empowerment Trust, the latter shall prevail.